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SUBJECT: Austrian Government Establishes Bank Rescue
Holding Company; More Banks Resort To Government Funds

REF: (A) VIENNA 1619; (B) VIENNA 1601 and previous

¶1. SUMMARY: The GoA has established a bank rescue holding company, known by its acronym as FIMBAG, to administer the EUR 15 billion from the bank rescue package available for GoA equity injections for banks and insurance companies. Its first acquisition was Kommunalkredit, which the GoA nationalized November 3. Most or all large Austrian banks will apparently tap GoA funds. Though domestic in intent, GOA equity injections could provide additional breathing room to shore up foreign subsidiaries (Austrian bank subsidiaries hold 15.3% of the CEE/SEE/CIS banking market, accounting for 26% of Austrian banks' total assets). However, GOA reps see no need at present for Austrian banks to supply additional equity to their CEE/SEE/CIS subsidiaries. END SUMMARY.

Government Establishes Bank Rescue Holding (FIMBAG)

¶2. On November 11, the GoA officially established a bank rescue holding company to administer EUR 15 billion (from its EUR 100 billion bank rescue package) available for GoA equity injections in banks and insurance companies (ref B). The new company, Finanzmarktbeteiligung AG (FIMBAG / in English, Financial Market Participation Company) is a wholly owned GoA enterprise established as a subsidiary of OIAG (the GoA holding / privatization company).

¶3. The GoA appointed two experienced bankers as FIMBAG's executive CEOs: former National Bank (OeNB) Governor Klaus Liebscher and former OeNB Director General / President Adolf Wala. The supervisory board will consist of Veit Sorger (President of the Association of Austrian Industrialists), Hannes Androsch (industrialist and former Minister of Finance), Stefan Zapotocky (OIAG supervisory board member and former CEO of the Vienna Stock Exchange), Herbert Kaufmann (CEO of the Vienna International Airport), and two lawyers, Hellwigg Toggler and Alexander Russ.

Troubled Kommunalkredit

¶4. FIMBAG's first acquisition was the troubled Austrian banking group Kommunalkredit, which the GoA nationalized on November 3 (ref A) by taking over the Austrian Volksbanken AG's 50.78% share and the 49% share of the Belgian-French Dexia Credit Local. Volksbanken and Dexia were obliged to convert unsecured Kommunalkredit papers worth EUR 173 million and EUR 200 million, respectively, into participation

capital (thus contributing to Kommunalkredit's equity base). That participation capital bears an interest rate of 8% p.a. with a term of at least 5 years. The GoA will have to pump additional funds into the bank to raise its Tier 1 equity ratio to 9% (reportedly a low three-digit million EUR amount).

More Banks Will Use State Capital Injections

¶5. After Erste Bank (Austria's second largest banking group) became the first large Austrian bank to request a GoA capital injection (EUR 2.7 billion) via non-listed, non-voting and non-transferable participation shares, it appears now that most or all of the large Austrian banks will tap GoA funds. Raiffeisen Zentralbank (RZB), Austria's third largest banking group, will decide on a GoA capital injection of up to EUR 2 billion at a November 25 general meeting. After its Kommunalkredit debacle, Volksbanken (Austria's fourth largest banking group) will need at least EUR 1 billion to bring its Tier 1 capital ratio to 9%; it is unclear how much will come from a capital increase among shareholders and how much from a GoA capital injection. Bank Austria, Austria's largest bank and a member of the Italian UniCredit group, and BAWAG (Austria's fifth largest bank, wholly owned by U.S. private equity fund Cerberus Capital Management) are still discussing the issue within their international owners. Mid-sized financial institutions are also being mentioned as possible beneficiaries of the fund, including Hypo Alpe Adria, home loan savings bank

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Wuestenrot, and mortgage banks.

How does Austria's Rescue Affect Emerging Europe?

¶6. A Finance Ministry (MoF) representative confirmed that the EUR 15 billion available for equity participation is designed for domestic use, but this is not spelled out in the MoF's ordinance of October 30 (ref A) because it would violate EU regulations. Banks and perhaps insurance groups will enjoy additional liquidity through state equity, are expected to provide loans to domestic businesses and private individuals, and reportedly understand that they cannot use the GoA money for equity injections into CEE/SEE subsidiaries. However, money is fungible and GoA money for domestic purposes will free up other funds. Our MoF source foresaw no large-scale problems in Austrian banks' in CEE/SEE/CIS subsidiaries and thus no need currently for equity injections.

¶7. According to the OeNB's Financial Stability Report of June 2008, 12 Austrian banks operated 73 fully consolidated subsidiaries in CEE/SEE/CIS as of 31 December 2007. Of those subsidiaries, 38 are in the 12 new EU member states, 24 in other SEE countries and 11 in the CIS. Austrian banks have a 15.3% share of the entire CEE/SEE/CIS banking market (22.7% excluding Russia). In 2007, Austrian banks' CEE/SEE/CIS business accounted for 26% of their total assets and 43% of consolidated profits before taxes. NOTE: Unconsolidated bank assets of Austrian banks totaled EUR 899.5 billion in 2007; total assets on a consolidated basis (i.e. including CEE/SSS/CIS subsidiaries) were EUR 1,073 billion, of which the five largest Austrian banks accounted for 62.5%. END NOTE.

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